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EMBASSY CONSTRUCTION AND DIPLOMATIC SECURITY

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

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EMBASSY CONSTRUCTION AND DIPLOMATIC SECURITY

MONDAY, JUNE 29, 1987

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, in room SD-608, Dirksen Senate Office Building, Hon. Lawton Chiles (chairman of the committee) presiding.

Present: Senators Chiles, Hollings, Domenici, and Leahy.

Staff present: Richard N. Brandon, staff director, and Douglas Olin, assistant director for budget systems.

For the minority: G. William Hoagland, staff director, and Charles Flickner, senior analyst for international affairs.

OPENING STATEMENT OF CHAIRMAN CHILES

STATE DEPARTMENT DILIGENCE

Chairman CHILES. Good morning. Nothing seems to have captured the imagination of Americans like the situation of the American Embassy in Moscow.

Since 1969, we have been trying to build a new embassy in Moscow and the cost overruns, the delays, and the concessions we have made to the Soviets are disgraceful. Equally disgraceful has been the State Department's unwillingness to confront this problem.

In 1982, we knew we had security problems with the building, but construction was not stopped for another 3 years, in 1985.

In 1985, when I sponsored legislation with Senator Leahy and Senator Johnston to address this question, the State Department fought the legislation. It was called unnecessary and unneeded and we were assured that the project was on track, but it was not.

In 1985, the legislation was moderate, it was reasonable. And last year we discovered that problems in Moscow were even greater than we had thought.

A staff delegation from this committee and the Senate Foreign Relations Committee traveled to Moscow last September and raised concerns, not only about the cost and security, but about the integrity of the construction.

Again, the State Department assured us that their conclusions were overstated and that the project was sound and it was on track.

Again, we wanted to be moderate and reasonable, so we asked the National Bureau of Standards to review the project and see whether or not our fears were well-founded.

Well, they were. The National Bureau of Standards confirmed the construction flaws would need to be fixed to make the building safe.

Finally, years after this began, Mr. Schlesinger was called in, the former Secretary of Defense, by the Secretary of State, to review the project in Moscow. One of three panels will be reporting on Moscow in the next 3 weeks.

Another panel headed by former Secretary of Defense Mel Laird will report later this week and the President's Foreign Intelligence Advisory Board will report in mid-July.

EMBASSY CONSTRUCTION PROBLEMS WIDESPREAD

But before we begin with Secretary Schlesinger's findings for the Moscow project, I think it is important to note these problems are not confined to Moscow or to the State Department's Foreign Building Office.

Problems have been identified in embassy construction projects in Cairo, Somalia, Hong Kong, Calcutta, Syria and elsewhere.

And these problems are not new. GAO, the Congress and the State Department's own Inspector General have time and again reported on the mismanagement of the Foreign Buildings Office.

In 1963 and 1969 and 1973 and 1977, 1978, 1981, 1984 and 1985, reviews by the General Accounting Office and the State Department reported serious defects in State Department management.

The only thing as constant as the reports or problems from the State Department's management seems to be the State Department's inability to make change.

GIVE CORPS OF ENGINEERS ROLE IN EMBASSY CONSTRUCTION

I believe this is fundamental to the State Department's institutional nature. Simply put, you do not make ambassador by building a good building.

I believe it is time to look at one of the government's other building agencies to support the State Department in building a new embassy.

I have in the past, personally, and will in the future, continue to recommend that the Corps of Engineers be given some role in the construction of embassies abroad.

I know the State Department does not agree with this approach, but I think it is time to reconsider, if our experience in Moscow should teach the State Department anything, it should be to have an open mind.

INTERNATIONAL PROGRAM CRISIS DESPITE HIGHER OUTLAYS

The past several years have marked extraordinary growth in the international affairs function of the budget. Between 1980 and 1985 outlays from recurring international programs increased by an average of about 7 percent per year.

Outlays in these programs provided in this year's budget conference will be higher than 1985. Nevertheless the administration as-

serts that there is a budgetary crisis in international programs. We are not sure that that is the case.

If the crisis exists, it is in the inability of the State Department to effectively manage the long-scale programs authorized by Congress and to balance new requirements against old claims.

The budgetary pressures of Gramm-Rudman-Hollings and the President's unwillingness to raise the revenues necessary to pay for these new programs has sharply increased the competition for resources among the foreign affairs agencies.

CHART 1

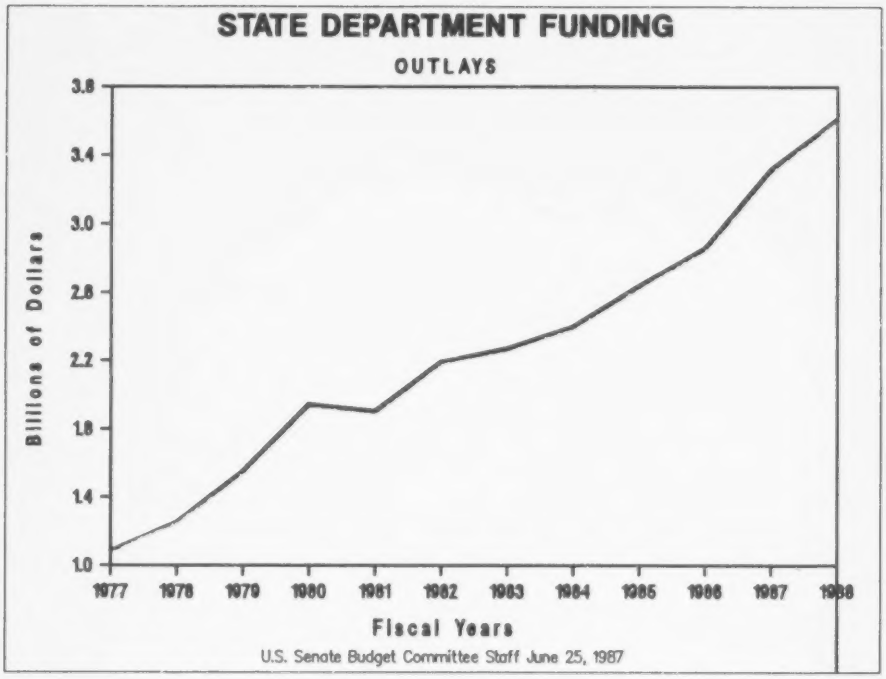
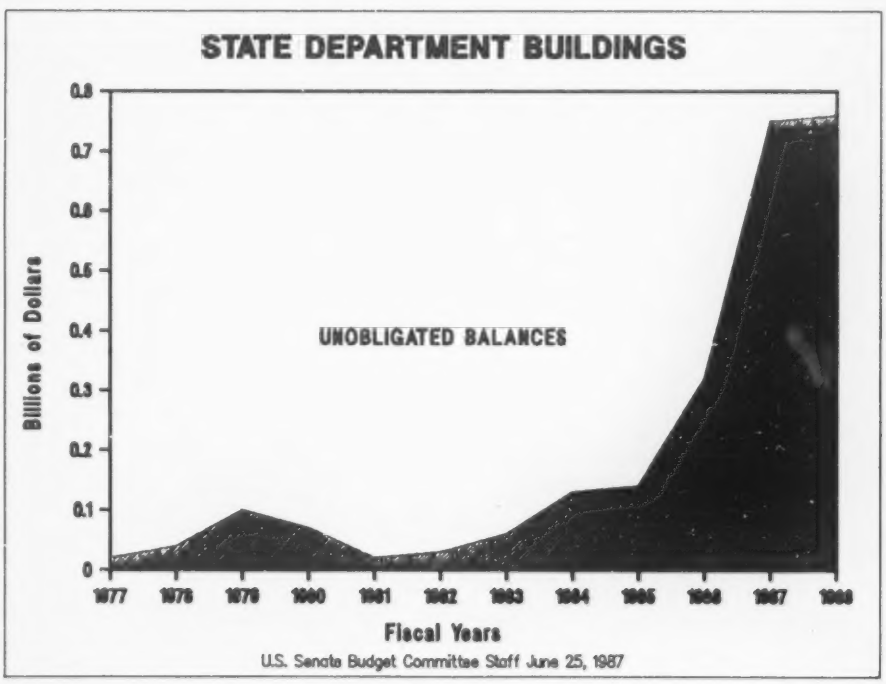


CHART 2



But, as chart 1 shows, since the late 1970's, funding for State Department programs has increased over 200 percent. In fact, as chart 2 shows, unobligated balances for new embassy construction efforts have grown from an average of less than $100 million per year to almost $1 billion.

There is plenty of money out there in the unobligated balances if we can spend it properly.

So, it seems to serve in the foreign service of the United States is to hold a unique position of trust. The job can be difficult and in recent years, we now have been shown, it can be quite dangerous.

Men and women who serve in the State Department at home and abroad deserve the highest quality of support. Sadly, sometimes, that support has been lacking.

Embassy construction is a scandal. It has been for years. The effectiveness of the State Department's most valuable resource, its people, are jeopardized by what the State Department's own Inspector General calls "a myriad of systematic problems."

We hope that his hearing can be a beginning in how we can address that.

HISTORY OF NEW MOSCOW EMBASSY COMPLEX

I just want to give, briefly, this—because we always start off sort of from one point of knowledge, but just so that—for the record, the history of the new Moscow Embassy complex.

In 1963, negotiations began between the United States and the Soviet Union for relocating embassies. In 1969, agreement was reached between the United States and the Soviet Union to provide for the exchange of sites, to construct new complexes in Washington and in Moscow.

The agreement gave the Soviets a property on one of the highest spots in Washington, a location ideal for intelligence collection. The Soviets, in turn, gave us a plot of one of the lowest points in Moscow.

In 1972, agreement was reached between the United States and the Soviet Union on a condition of construction of the new embassy complexes.

In 1977, there was a protocol which the Soviet Union signed which called for a fix price contract with the Soviet Union for a portion of the construction and the United States agreed to accept Washington, DC, construction costs as a basis for unit costs for our complex in Moscow. The protocol called for construction to begin.

So, point one is we allowed them to pick the high ground and give us the low ground. Point two, we take Washington, DC, construction costs rather than Moscow costs.

In 1978 the Soviets completed construction of new apartments, schools and clubhouses in Washington before we completed our construction in Moscow.

The State Department allowed the Soviets to occupy their new Washington site in return for reducing their contract bid to the Washington, DC, prices. That we had already agreed on. That was a mistake we already made.

But to get them to reduce their contract to what we had already agreed on, we allowed them to occupy their site.

The State Department maintained that the total cost of the project would be $75 million. Completion was projected as July 1982.

In 1979, the contract with the Soviets was signed. At that time our cumulative appropriations reached $91.5 million. In 1981, cumulative appropriations reached $103.5 million. In 1982, the appropriations reached $135.2. The State Department now estimates completion in 1984.

In 1983, the cumulative appropriations reached $139 and the State Department tells Congress the project will be completed in 1984.

In 1984 the appropriations reached $147 million. And in 1985 the appropriations reached $167.1 million. Soviet construction on the office building stopped in August. The State Department claims that completion was slated for the end of 1987.

Then we had the first Chiles-Leahy-Johnston amendment requiring the Soviet Union to reimburse the United States for all damages and costs incurred due to Soviet caused delays in construction.

The legislation also prohibited the Soviets from occupying any new facilities in Washington until the United States had received compensation for these damages.

In 1986, an additional $25 million was appropriated for security. The cumulative appropriations now total $192 million. Completion is now scheduled for the end of 1989.

We had the second Chiles-Leahy-Johnston amendment earmarking $1 million for the National Bureau of Standards to conduct an independent assessment of construction defects on the building and requiring the State Department to report every 6 months on unacceptable Soviet behavior and State Department actions to counter such behavior.

In 1987, the United States has finally occupied the apartment buildings in Moscow and now we claim the office building will be completed in 1989, but now we have the Schlesinger report and these other reports that are coming out.

We are delighted to have Senator Leahy, who is here by my invitation to be with us today and to have Senator Domenici, the ranking member, and Senator Hollings who chairs the Appropriations Committee funding this area. He has also been very involved in this in the Intelligence Committee and has been following it in effort to try and remedy this scandal for a long time. I call on Senator Domenici.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Thank you very much, Mr. Chairman. First, I want to compliment you for calling this hearing and I join you in welcoming our witnesses this morning.

Secretary Whitehead this is your first appearance before this committee. But I know that we have been in your thoughts as you and Secretary Shultz have tried to pull together the administration's effort on behalf of international affairs and the total amount of money that is going to be allowed this year for that function.

Secretary Schlesinger, we appreciate your continuing willingness to undertake difficult assignments for our Government and to be here today to testify with reference to one of those.

It is obvious from the history just given by the Chairman of the Budget Committee that Moscow Embassy construction has been bungled by many administrations of both parties for many years.

Few people associated with the Moscow Embassy construction have improved their reputations.

Secretary Schlesinger, you and the chairman, who has been on top of this issue longer than most anyone else here in the Senate, voluntarily tackled this mess long before it came to the front pages of our American news.

I hope your efforts with this report lead the way to a solution.

Mr. Chairman, let me tell you, I hope to benefit from this hearing, not only with reference to the Moscow Embassy. I am looking to Secretary Whitehead to giving us some convincing testimony that the State Department has come to grips with its management problems world wide, not just in Moscow.

BUDGET INCREASE MUST BE CONVINCING

I think you know, Mr. Secretary, if the Department cannot manage with the money you get, it is hard to get more. You and Secretary Shultz and the President have indicated that America needs more of a commitment in the world. I believe that. On the other hand, I think it is absolutely necessary that we be convinced it is well spent.

As I said last week during the debate on this Senate Budget conference, the percentage of our budget going to the sum total of defense and international affairs will soon be at its lowest point since the Second World War.

Both you and Secretary Shultz have told us many times that you are running out of money to properly conduct the foreign relations of the United States.

I am not sure that your requests for increases have a chance of being implemented, at least this year. But, Mr. Secretary, as top manager of the foreign affairs budget, I encourage you to take this opportunity to tell this committee the consequences of the situation as it now is evolving.

I do not think, as I said, you can change the situation much for this year unless some grand budget compromise is reached. Your case will be more credible if you can explain some specific consequences of steps you have taken to absorb the reductions from your request for the current fiscal year.

In particular, I think you ought to tell us how you are going to balance the competing demands from the various countries and agencies that have claims against the international affairs function of this budget.

DEGREE OF IMPOSED RESTRICTIONS AND EARMARKS ON BUDGET

And, lastly, I would appreciate it if you would give us your views on restrictions and earmarks that are imposed on foreign assistance budgets by the Congress. That is Congress' prerogative, but I

think you ought to tell us the consequences of that today during these hearings.

Chairman Chiles, again, I think you are doing a service to all of us by having these hearings. Your involvement in this problem for so long will, hopefully before too much longer, yield some fruitful results.

Chairman CHILES. Thank you. Senator Hollings.

OPENING STATEMENT OF SENATOR HOLLINGS

Senator HOLLINGS. Thank you, Mr. Chairman. Well, I hesitate making the comment but there is no question about the right of the Budget Committee. The question is appropriateness because we have the situation of going off the record to get into depth with respect to the findings of Secretary Schlesinger.

SECURITY PROBLEM WORSE THAN REVEALED

And let me put it this way: I think there has been a race on with the administration, more particularly the State Department, with the Congress on this score to make sure that we barreled ahead, irrespective of security considerations.

That has been found over the past 7 years. We started on this in 1979–82. As chairman of the Subcommittee on State, Justice and Commerce, we were making the admonitions time and again, and time and again we were being told that they were being corrected and could be corrected and, "Yes, there was penetration, but do not worry."

The Intelligence Committee finally got into it. This year, we had several closed sessions. And it came to a climax, so to speak, in Appropriations when we had a closed session with Secretary Shultz and went over the entire matter.

And the Senators present at that time indicated on the Appropriations Committee that we were not going along any further unless they could give us some other plausible solution to the problem.

The Intelligence Committee, then, had 3 days of hearings. I was withholding the mark-up, the final report, which we did and the day before the full Committee on Appropriations met, the Intelligence Committee unanimously said, "raze the building." There was no other solution.

Their finding was that in order to determine all of the particular devices of penetration you virtually had to tear the building down to make the find.

So, it was not a question about tearing the building down. The question was to make sure you removed all of the listening devices.

And in order to do that, the decision had been already made; the building had to be torn down, if you were to make a thorough cleansing of the devices.

And we included that amendment, of course, on our appropriations bill and the Appropriations Committee unanimously voted that.

HO-HUM ATTITUDE UNACCEPTABLE

I will be glad to listen to Mr. Secretaries, both. I see you say that the acceptance throughout the Government of the philosophy of the special requirements—and, yet, you do not accept that philosophy yourself.

You accept the philosophy for the three top floors, but not the bottom five floors. That is what peaks my curiosity in this whole situation, because it seems to be a ho-hum, shrugging of the shoulders, "Well, so what, they know everything that is going on any way, so whatever they must learn they are going to learn it any way, so we will just go ahead and save that part."

I do not think that is a function of this government. I think the responsibility and function here is to have an unpenetrated, cleansed, operable building as we contracted for in Moscow. Unless and until we get that, I hope the Congress will hold fast because there is no rush.

I know the inconvenience. It is inconvenient, period, to serve in Moscow. But until we can do that, let us make sure that we have contracted for and not make a compromise on just exactly what the Secretary finds here when he talks about the acceptance of the philosophy. I perhaps have a different philosophy. Thank you, Mr. Chairman.

Chairman CHILES. Thank you. Senator Leahy, we are delighted to have you here this morning and have your interest in this subject. Your work on the Intelligence Committee and your other efforts in the Senate have been long and continuous.

OPENING STATEMENT OF SENATOR LEAHY

Senator LEAHY. Well, Mr. Chairman, I do appreciate the courtesy you and the other members of the committee have extended in allowing me to participate in this hearing.

You worked hard on the two Chiles-Leahy-Johnston amendments on the Moscow Embassy you mentioned earlier. And I appreciate your support of the Leahy-Cohen amendment aimed at reducing Soviet espionage.

I would like to put my own written statement in the record, and not take up the committee's time because I think we should get right to a discussion on how we got into this horrendous mess in the first place.

FORESIGHT, ALERTNESS WOULD HAVE PREVENTED PROBLEM

But, before we do that, I have to say that I am concerned that we still see many in the State Department turning a blind eye to the realities of the Soviet threat.

We still see tough talk which is substituted for tough action and rhetoric substituted for reality.

The irony of this whole thing, when we look at our bug-ridden embassy in Moscow, when we look at the way the Soviets have been able to penetrate our building in Moscow, is that if we had just copied what the Soviets do, we would not be in this mess.

If we had watched the way the Soviets built their embassy here in the United States, keeping us off the grounds, x-raying their material and so forth, we would not have this scandal now.

We should have simply said back then, "Well, we do not know how to build a bug-free embassy, so we will just do what the Soviets are doing, because they obviously must have thought about the subject."

And, so, Mr. Chairman, I am glad you are having these hearings. I also want to especially commend Dr. Schlesinger for his work.

I know he has put in an enormous amount of time on his report. The State Department did do the right thing in picking Dr. Schlesinger to do this report because he has an enormous amount of credibility on both sides of the aisle.

And with that, I will just put my statement in the record, because I want to hear him. Thank you.

Chairman CHILES. Thank you. Your statement will be included.

STATEMENT OF SENATOR PATRICK LEAHY

on the

SCHLESINGER REPORT ON THE SECURITY OF THE

NEW MOSCOW EMBASSY BUILDING

SENATE BUDGET COMMITTEE

June 29, 1987

Mr. Chairman, I want to thank you and the other Members for allowing me to participate in this hearing of the Senate Budget Committee.

Senator Chiles and I worked together on the two Chiles-Leahy amendments on the Moscow Embassy, and I greatly appreciated your support of the two Leahy-Cohen amendments aimed at reducing the Soviet espionage threat. The issue of how we got into this horrendous mess with our Moscow Embassy building still troubles me deeply, and I welcome this opportunity to work with you again on how we might get out of it without wasting millions more of the taxpayers' dollars.

Dr. Schlesinger, it is good to see you again. Your briefings in my office on this matter were very helpful. I think you have come up with a reasonable set of recommendations. Let me first say what I agree with.

Frankly, were it not for the fact that we have already poured $196 million of the taxpayers' money into the new Moscow embassy complex, I would favor total demolition of the Chancery building. However, as a practical matter, the entire embassy building need not be secure for the diplomatic staff to carry out confidential work, and your plan to destroy the top three floors and totally rebuild them with American materials and by American workers to be completely secure seems reasonable.

Constructing a small building or annex adjacent to the present new building, also completely built with American materials and by American workers, may also be necessary. I would like to hear more of the justification for this additional secure facility, though I suspect I can anticipate the arguments.

I absolutely agree with renegotiating the 1972 Agreement to allow all new work to be done strictly with American materials and only by American workers on the site. In fact, I urge that when the Agreement is renegotiated, the State Department take a hard look and the entire agreement and reopen any part of it which does not provide for strict reciprocity of rights and obligations. I am convinced that existing laws and regulations governing Soviet diplomatic activities and functions here in the United States should be reviewed and strengthened, and I am taking another look at the two Leahy-Cohen laws covering the Soviet Embassy and their UN Mission in New York. We may well want to toughen them even further.

That said, let me cite some major problems I have.

I see no way this project can be carried out by 1990 if it is left under the management of the same people who brought us our present disaster. I mean no disrespect to Deputy Secretary Whitehead, but my long, contentious and unpleasant experience with the State Department on the Moscow embassy security issue leads me to conclude that it is completely incapable of doing this job right. The plan will not work unless the President or Congress finds some other body to do this reconstruction.

I strongly disagree that the Soviets should be allowed to move into their Mount Alto chancery. This is one of the lopsided provisions of the 1972 Agreement I had in mind when I said earlier that when the Agreement is renegotiated, it ought to be made strictly reciprocal. The Soviets should occupy a site similar in height to the one they gave us in Moscow.

Finally, I notice nothing about how to pay for the recommended fixes. Senator Chiles and I did an amendment two years ago that required the Soviet Union to pay damages due to contractors for its deliberate delays and obstructionism in the construction project. That same principle should apply to this extra cost, which is due entirely to Soviet actions. I believe Soviet Union, not the American taxpayer, should bear the extra cost of completing this building such that it can be used for our diplomatic function. That is another area where I intend to look at possible legislation.

I welcome Dr. Schlesinger's report and commend him for another outstanding service to the American people.

Chairman CHILES. Mr. Secretary, we are delighted to have you with us. We thank you for the time and effort you continue to give your Government in the difficult assignments given to you. We are glad that you are around to take some of those assignments.

STATEMENT OF HON. JAMES R. SCHLESINGER, FORMER SECRETARY OF ENERGY

Mr. SCHLESINGER. Thank you. I am pleased that you are delighted that I am here. From the initial comments of the members of the committee, I was beginning to have some doubt about that. But I will proceed——

Chairman CHILES. We did not say we would agree with what you say. We just said we are glad to have you here. [Laughter.]

SECRETARY OF STATE ORDERS CHANCERY REVIEW

Mr. SCHLESINGER. Mr. Chairman, and members of the committee, I am pleased to appear before this committee this morning to transmit my observations and recommendations with respect to the Moscow chancery project.

In mid-January of this year, Secretary Shultz asked me to undertake the review of the status of construction of the Moscow chancery building.

He also requested that I develop recommendations for an appropriate course of action to resolve our problem at the new chancery, a partially completed building substantially penetrated by Soviet intelligence gathering devices.

The Secretary asked me to focus on four distinct issues: First, the structural soundness of the new office building in Moscow; second, the security of the new building; third, the advantages and the disadvantages of the new site, compared to the site on Tchaikovsko Street in Moscow; and, fourth, the intelligence collection advantages that Mt. Alto afford to the Soviets over their current location.

My findings have now been presented to the Secretary, who, after consideration of my recommendations, as well as those resulting from other studies currently in progress, will determine the appropriate steps to be taken.

At this time, let me touch upon the salient points of my report.

SOVIET HIGH-TECH DEVICES PRESENT

Soviet security services have permeated our new chancery building with a full array of intelligences devices for which, as yet, we do not understand either the technology or the underlying strategy.

That an attempt to compromise the building would be made was both foreseeable and foreseen. But as a nation, we failed to allow for the boldness, thoroughness, and extent of the penetration.

Our task now is to take whatever steps are necessary to render the building secure and operationally effective, as is required by the Embassy's mission.

This is feasible, but will cost time and money. It will also depend upon greater cooperation from the Soviet Union than has ever exhibited heretofore.

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We should bear in mind one central consideration, a reasonably secure and effective U.S. Embassy in Moscow is more productive to our interests than its Soviet counterpart in Washington is to theirs.

Manifestly, a window on a closed society is more valuable than yet another window on an open society.

HOW SECURITY PROBLEMS DEVELOP

Mr. Chairman, I am going to add a few observations to my prepared statement. First question: How did we get where we are?

In the signing of the agreements with the Soviet Union, there was a presumption of equality. Equality was interpreted as "in accordance with the customs of the host country." That we could, indeed, attain equality in this manner turned out to be an erroneous assumption.

The two countries are not symmetrical. When the Soviets said that they did not cast concrete onsite in their own country, perhaps we too readily accepted that assertion.

But more important and more fundamental is the lack of symmetry between the two countries.

Chairman CHILES. Just explain that to us a little bit, that casting of concrete. A lot of people here do not understand what difference that makes.

Mr. SCHLESINGER. Mr. Chairman, according to the 1972 agreement, we permitted the—we agreed that we would follow the construction practices in accordance with the customs of each country.

The way we got to the position in which we presently are, is that the Soviets stated that it was not the habit of their country to cast concrete members onsite. Therefore, the concrete members were cast offsite without adequate inspection by American inspectors.

Senator HOLLINGS. Who believed that?

Chairman CHILES. Did we put in that agreement we believed in the "tooth fairy"? [Laughter.]

Mr. SCHLESINGER. The agreement speaks for itself, Mr. Chairman. [Laughter.]

In any event, the Soviets had first asserted that they did not cast these concrete members onsite and that, therefore, they were cast offsite.

U.S. FELT CONFIDENT IN DEVICE DETECTION

There is a second element to this. For many years the United States, perhaps complacently, has believed that its technology is sufficiently superior to that of the Soviet Union that we could catch them.

Indeed, we have many times. Unfortunately, that presupposition has slowly deteriorated with time as the Soviets have improved their technology.

As a consequence, the improvements by the Soviets during precasting of these concrete members offsite made them impervious, as it were, invisible, to the x-rays on which we were relying to catch any deviations.

But there is something more fundamental, Mr. Chairman, as I was about to observe, and that is the lack of symmetry between the two countries.

If we observe the customs of the countries, the Soviet Union has the opportunity to choose amongst a thousand constructions firms in the United States of America, one which can best suit its own purposes here in constructing its new embassy building.

And when the United States is obliged to choose amongst construction firms in the Soviet Union, it has a very narrow choice; indeed, one would say that the choice winds up being the various organizations behind which stands the Soviet Government. So, we have a very narrow choice within the Soviet Union.

We have, as I mentioned a moment ago, steadily underestimated Soviet capability in this area. Let me assert, frankly, that as a free society, that the United States has no comparative advantage in terms of the penetration of embassies.

In past years, the Soviets were sufficiently behind us that we were able to detect penetrations and neutralize them. That was the assumption in building this facility.

We now face a rising curve of Soviet technology with no gap between what the Soviets can do and what we can do. Indeed, in some areas, they have been ahead of us. That should not be surprising. The Soviets work at these problems 24 hours a day, 365 days a year.

It is a hard world out there, Mr. Chairman. If one permits the Soviets to pre-cast concrete columns and beams off site, the prime party to blame is not the Soviets, but ourselves. We have presented them with too much opportunity, too much temptation for them to resist.

HOW TO PROCEED FROM HERE

My second point is there is no point now in allocating blame. Nothing will be served by that. My assignment was not to assess the blame. There is plenty of it to go around; rather, my assignment was, what is to be done now.

Of course, it would have been better to have been more cautious in reaching agreement with the Soviets, initially and more alert after having discovered what was afoot earlier.

But the real issue today is what do we do now. Let me make two initial points:

First, with respect to both embassy construction and operations we have a lot to learn from the Soviets. A point that Senator Hollings just made.

They are at this game 24 hours a day, 365 days a year. Under the watchful eye of the Soviet security services, the Soviets have thought long and hard about how to design embassies for security and they have thought long and hard about the construction process.

It would not be embarrassing for the United States to learn from the Soviets in this area.

The solution to our problems will be neither easy nor cheap. It will require major changes at the embassy complex; some might say radical changes.

Now, Mr. Chairman, I go back to my recommendations. I will read them:

First, that responsibility for carrying out the remedial action necessary be vested in one individual with the authority to treat all issues connected with the chancery project, including renovations to the present chancery, and the mandate to develop and implement coherent U.S. Government policy in this respect.

Second, the dismantling of the upper three floors of the new office building and their replacement using modern, modular steel construction techniques.

Third, the retention without significant reconstruction of the lower five floors, after having made every effort to neutralize Soviet intrusions. The retention of those floors as unclassified, though restricted access space.

Fourth, the construction in the forecourt of a new 27,000 to 38,000 square foot addition, the annex, to house the most sensitive operations of the embassy.

Fifth, the elaboration of a strategy of defense in depth, not only for the Moscow Embassy, by the way, but for our embassies behind the Iron Curtain and generally throughout the world, in order better to protect the more sensitive elements.

Sixth, the adjustment of the conditions of the 1972 agreement as necessary to provide for the right to take all measures necessary to carry out reconstruction and construction efforts entirely with American citizen personnel.

Seventh, the acceptance throughout the government of the philosophy that the special requirements of an embassy behind the Iron Curtain transcend the traditional construction norms of the State Department.

These embassies function in a distinctly hostile environment, under constant human and technical attack. The buildings must be capable of withstanding attempts by foreign intelligence services to acquire sensitive information.

An unending game of move and counter move is played.

To consider the requirements for design and construction of embassies in Eastern Europe in the same light as embassies in, say, West Africa or South America, ignores the security climate in which these embassies exist.

Instead, recognition should be given to the need for incorporation of innovative security measures in every phase of design and construction.

In this regard, the traditional manner of funding the construction of U.S. embassies in adversary capitals should be reviewed. This should be conducted in consultation with the concerned congressional committees.

Eighth, that efforts should be expended to retain permanently at least a portion of the existing office building for use as a consulate, medical unit, trade office or to serve other necessary but none sensitive functions. This would reduce the volume of extraneous traffic into the new chancery building.

Ninth, that the Soviet Embassy be allowed to shift operations to Mt. Alto only when our reconstructed complex in Moscow is ready for occupancy. The intelligence potential for Mt. Alto at the margin is considerably less than popularly assumed.

SOVIET COOPERATION DICTATES COMPLETION DATE

If full Soviet cooperation is obtained and the necessary resources for the project allocated in a timely manner, the new chancery complex should be ready for occupancy in 1990.

Mr. Chairman, in view of, what shall I say, slipped dates in the past, I think I should say some things to clarify that.

First, this depends entirely upon full Soviet cooperation in permitting us to rebuild the top three floors and the annex with our own people and our own material.

That has not, as you know, been done in the past.

Chairman CHILES. And if they do not, Mr. Secretary?

Mr. SCHLESINGER. I will come to that in a moment, if I may, Senator.

This does depend upon Soviet cooperation. Perhaps this falls under the heading of "restructuring" as Mr. Gorbachev has pointed out so frequently.

But the dates, indeed, the security of the embassy will be achieved if and only if we have that kind of cooperation.

How do we elicit Soviet cooperation? Well, I think that there is some leverage to be gained by the fact that the Soviets do, indeed, want to move into their new embassy building.

You have all seen these buttons that say "Free Mt. Alto." I am inclined to send to the Soviet Ambassador one which would say "Help Us to Free Mt. Alto."

More important than that, however, the Soviets have been pressing in the new climate which reflecting the negotiations on strategic arms and intermediate range nuclear forces—they have recognized I believe, the importance of the preservation of existing gains. In this sense the potential embassy intelligence advantage is far less important than larger issues between the two countries.

The Soviets, being quite sensitive on such matters, have taken note of some disaffection on these issues on Capitol Hill. They have noted the legislation that Senator Hollings and Senator Chiles referred to.

They understand, I believe, that there is a substantial psychological reaction here, not only to the penetration of the new chancery, but also to the activities involving the Marines.

They do not fully understand the reaction. They had assumed we shared their judgment that all is fair in love and war and intelligence matters, if these can be sharply distinguished.

But they do note that reaction and I think there will be a desire to reduce, how shall I say, the sense of outrage in this country.

WITHOUT SOVIET COOPERATION EMBASSY CANNOT FUNCTION

I come now to the question, if we are unable to obtain that kind of Soviet cooperation, we must recognize, given the rising curve of technology, the traditional functions of an embassy behind the Iron Curtain, and later outside the Iron Curtain, will no longer be able to be performed.

We must begin to accept the simple reality, that the improvements in technology require different methods of construction and protection of an embassy in this era.

I trust that the Soviets will recognize that. If they do not, we are not going to be able to do in Moscow what we have traditionally done.

Mr. Chairman, I would be pleased to respond to your questions.

Chairman CHILES. Thank you, sir. I want to be able to hear from Secretary Whitehead first and then we will be able to question both of you.

Deputy Secretary of State John Whitehead, we are delighted to have you here. You have come to the Secretary of State with some terrific experience on the business side.

That is a little unusual. You have certainly had a distinguished career in business matters and we are glad to see you at the State Department and pleased to have your testimony this morning.

STATEMENT OF HON. JOHN C. WHITEHEAD, DEPUTY SECRETARY OF STATE

Mr. WHITEHEAD. Mr. Chairman, thank you for the invitation to appear before you today. I am particularly pleased that this coincides with the appearance of Jim Schlesinger.

As you know, Secretary Shultz asked Dr. Schlesinger earlier this year to conduct a review of our building situation in Moscow. He has labored with great distinction to produce the report and recommendations which he is now submitting.

Let me say, on behalf of Secretary Shultz and the State Department and certainly all of us concerned, that we are very indebted to Dr. Schlesinger for his efforts and contributions in this important matter.

DIPLOMATIC RELATIONS CRITICAL FOR PEACE AND STABILITY

Our diplomatic relations with the Soviet Union are critical not only to our national security, but also to international peace and stability.

However, our critical diplomatic efforts are useless if we cannot protect our most sensitive plans, information, communications and conversations from Soviet intelligence organizations.

Our diplomatic missions in the Soviet Union have always been the targets of relentless attack by Soviet intelligence agencies.

SOVIET HEAVY-HANDED ESPIONAGE ASSESSED

As you know, we have uncovered, through extensive technical investigation over the past few years, an elaborate web of Soviet listening devices constructed into our new chancery in Moscow.

Recent events have shown us once again that our personnel are also relentlessly targeted by Soviet intelligence.

These episodes have once again made abundantly clear the true nature of the Soviet espionage threat. They have also pointed up serious weaknesses in our own thinking, methods and procedures about how to defend against these threats.

We have already begun a major program to insure that what has happened in Moscow will not happen again anywhere else in the world.

We must also begin now an urgent program to repair the damage and restore the security and effectiveness of our missions in the Soviet Union.

CORRECTIVE DECISIONS DRAW ON REPORTS ON EMBASSY

Mr. Chairman, this is where Dr. Schlesinger's extensive efforts have been focussed. His specific recommendations are now receiving our closest examination, particularly as regards to timing and the necessary element of Soviet acquiesence in letting us do what must be done.

We will be using only cleared American personnel in all facets of what we undertake and we will look to the Soviets to assure that visa limitations or other bureaucratic restrictions will not complicate our endeavors.

There are two other reports which are due very soon. The first is that of the Laird Commission, expected around July 1. The second is the report of the President's Foreign Intelligence Advisory Board [PFIAB] due about July 15.

All three reports, including Dr. Schlesinger's, look at various aspects of our operations and needs, but there may be some overlap.

Consequently, we will be drawing from these reports and feeding them into a set of decisions which the administration will soon be taking.

Let me emphasize that we do mean "soon." Ambassador Matlock and his embassy team in Moscow need the best coordinated support which we can give them now, not just in the future.

Let me note specifically that as we move on reconstruction of our new embassy site, we must enhance the safety and security conditions at our present embassy office building. This will be neither inexpensive nor easy, but it must be done. Dr. Schlesinger speaks to this point in his report.

Finally, in this regard, let me reiterate the Dr. Schlesinger's specific recommendations on partial dismantling and reconstruction of the existing new office building, the addition of a new annex building next to it and his various other well-developed proposals are receiving our closest attention.

ORGANIZATIONAL CHANGES TO IMPROVE SECURITY

Just as the successful attainment of these recommendations must have the active cooperation of the Soviet Government, it must also have, and will have, a much more cohesive, integrated, coordinated approach and organization on the part of the State Department and all concerned agencies.

In view of the problems which the Foreign Buildings Office has experienced in past construction projects, Congress has been justifiably concerned about the Department's ability to manage and expand a construction program.

The two projects most often cited as failures are Cairo and Moscow.

The Cairo project was grossly mismanaged. The problems centered around poor project development, poor contractor selection, inadequate construction oversight in Washington and on-site, and a lack of project accountability.

The problems in Moscow resulted from faulty bilateral agreements, which required the use of a Soviet contractor and off-site fabrication of structural elements.

This, coupled with the lack of adequate reciprocal leverage against the Soviets, facilitated Soviet construction delays and a concerted, highly sophisticated Soviet espionage effort.

Over the past 2 years, the State Department has undertaken major organizational changes designed to insure that such failures cannot occur again.

Key among these changes are the establishment of Bureau of Diplomatic Security and the Office of Foreign Missions and the reorganization of the Office of Foreign Buildings within the Bureau of Administration.

Over the past 2 years, the Office of Foreign Buildings has fundamentally reorganized to create an organization fully capable of effectively implementing the expanded diplomatic security construction program.

Among the steps we have taken to address organizational personnel and management issues are:

A significant upgrading of the numbers and quality of our contracting and construction management personnel;

The incorporation of the recommendations of the National Academy of Sciences into all aspects of our organization, procedures and operations; the selection of a respected private sector program management firm to assist us in all phases of our program;

The implementation of an organizational structure capable of quickly integrating the new management processes and systems brought to FBO by the private sector program manager;

The use of sophisticated program scheduling and cost control systems;

The establishment of strong coordination mechanisms between FBO, the Bureau of Diplomatic Security, the Office of Communications and other appropriate agencies reflecting the Department's increased appreciation of the critical importance of security in every aspect of our building program;

The development, in conjunction with the Bureau of Diplomatic Security, of integrated security design criteria, a program to control and protect design documents and an extensive construction site security program; and,

In concert with all elements of the Department and a number of other agencies, the development of bilateral construction agreements, which fully protect U.S. security interests and expedite construction.

EFFECTIVELY MANAGING CONSTRUCTION PROGRAM

As a result of such improvements, Mr. Chairman, I believe the State Department is now effectively managing our sharply expanded construction program. We now have 63 capital projects under way, substantially within budget and on time.

As in any program of this size, problems arise, but they are now project specific problems and are being responsibly managed.

While we clearly have made major improvements, we are certainly not complacent. We are striving to get needed additional staff in place as quickly as possible.

We are aggressively coping with new contracting and security requirements and with increases in the scope of specific projects where post programs have grown since the original project planning and budgeting.

We will continually evaluate our program, meet problems head on and adjust organizational policies and procedures as necessary.

In sum, I believe we have recognized the problems of the past and have taken decisive institutional measures to address them.

I believe I can assure you with some confidence that a repeat of the problems we have seen in Cairo and Moscow is not likely.

FINANCIAL RESOURCES CHANGE PRIORITIES

The Department's diminishing financial resources have forced us to rethink many of our fundamental assumptions about how we do our business.

As a result, we have devoted a lot of time and attention to improving the quality of management in the Department. If we have to do more with less money, effective and imaginative management is even more essential.

We have had to make hard choices about the Department's priorities. While everything we do might be important, clearly some of our functions are more important than others.

We have tried to identify, and in some cases eliminate, our less important functions. For this reason, we closed seven small consulates last year and would like to close seven more this year.

We have eliminated hundreds of Foreign Service and Civil Service positions. We have reduced our overseas presence. We are also making better use of the resources we have.

We are improving training across the board, especially such high priority programs as hard language training, administrative training and economic training.

We have taken important steps to eliminate barriers, real and perceived, to the most effective use of our personnel, especially minorities and women.

We are also devoting scarce resources to our efforts to modernize the Department's infrastructure. We are pursuing exciting programs to improve the Department's information systems. These programs will increase the efficiency and cost effectiveness of our services.

We are improving our telecommunications network, a network shared by many other agencies overseas.

We are consolidating our operations from around the metropolitan area into the main State Department Building. This will help eliminate the countless hours wasted every day shuttling between the more than 20 State Department annexes around Washington.

We plan to build long overdue and much needed training facilities at Arlington Hall.

We are extremely fortunate to have in Secretary Shultz a Secretary of State who has many years of management experience, most recently as president of a large international construction compa-

ny. He is personally committed to improving the management of the State Department.

I, myself, came to Washington after 38 years in the private sector, most recently as the head of a large, worldwide banking organization.

We both devote a significant portion of our time to management issues. We have a solid management team in place at the State Department now. Their imagination and resourcefulness have helped us to survive the successive cuts into our budget.

BALANCED CONGRESSIONAL OVERSIGHT

Mr. Chairman, I would like to conclude my remarks on our management problems and what we are attempting to do about them with a plea that we jointly work toward the kind of relationship between Congress and the Department which can further our shared objectives of improved management.

I hope we can find the appropriate balance between legitimate congressional oversight responsibilities on the one hand and overly specific legislation on the other, which restricts us unduly as we try to respond to new problems and circumstances.

Let me cite a few examples, which I think help illustrate my point. When the budget situation requires us to cut expenses, the Secretary needs to have the ability to decide where the cuts should occur.

For example, he should have the option of deciding to close certain posts which have the lowest priority in terms of what they contribute to the national interests.

Congressional restrictions on post closings, which either delineate specific posts which must be closed or impose severe penalties if we close certain posts, make it very difficult to deal intelligently with less resources.

Another example is the tendency to mandate specific forms of internal organization, whether or not those charged with management of the Department think they are necessary.

The House version of our authorization bill, for example, contains a highly detailed proposal for creation of an additional Under Secretary position with responsibilities for security, construction and communications, together with a number of accompanying changes.

This comes hard on the heels of last year's reorganization of the same functions which have not yet had a chance to take firm root. The result can only be more confusion and inefficient use of scarce resources.

A number of our bureaus have been created at the direction of Congress, which, in turn, subjects us to other criticisms that we are top heavy.

Good organizations must evolve and change, but organizational changes should be instruments available for managers to use, not for outsiders to direct.

As a final point, excessive reporting and reprogramming requirements have reached the point where they often divert efforts to get the job done.

I realize that Congress must have adequate information to carry out its responsibilities, but there must be a way to do this without the staggering burden of reporting requirements which have accrued in recent years. Thank you, Mr. Chairman.

Chairman CHILES. Thank you, Mr. Secretary.

CAN CHANCERY BE MADE SECURE?

Dr. Schlesinger, one of your proposals is to dismantle the top three floors of the new chancery building and to build a new high security annex. Do you believe that the replacement floors can be made secure?

Mr. SCHLESINGER. The replacement floors, indeed, can be made secure. We have had extensive discussions with those in the intelligence community.

I should have mentioned earlier, Mr. Chairman, that at the outset of this venture, I acquired the services of the construction firm of Stone and Webster to check out the structural soundness of the building; and, also, the Mitre Corp., which is an Air Force think tank, to work on the security issues.

We do believe that we can make the three top stories secure on the provisions that I mentioned before, that the materials going into those top three floors and the construction activities take place with American personnel.

This is intended to be modular construction; it is in this way that we would hope to achieve an early occupancy date.

NEED FOR NEW MOSCOW ANNEX

Chairman CHILES. Well, now, if they can be made secure, why do we need to build a new annex?

Mr. SCHLESINGER. The original notion was that classified activities were going to take place on floors four and five, as well as six, seven and eight. Floors four and five will not have an adequate degree of security to conduct secure conversations.

We intend, or it is at least recommended, that we go in and clear out those systems that we have detected. But as I pointed out in my earlier comments, at this stage, we do not fully understand what the Soviets have done in terms of their strategy or their technology.

And, therefore, we will not be assured that even after the intended neutralization of the bottom five floors, that those floors will be appropriate for classified, highly classified, discussions.

This is acceptable in light of the questions that Senator Hollings previously raised, because those floors are not intended for classified activities.

The most sensitive activities would spill over into the new building which would be highly shielded. I need not dwell on that further at this time. It would give us a higher degree of protection than we have had hitherto, I think, reflecting what has for the past decade been a gradual improvement of technologies of the Soviet Union in this area.

Chairman CHILES. So you are talking about——

Mr. SCHLESINGER. Activities will spill over from the old building to the new building and they will be the most sensitive activities.

Chairman CHILES. We are talking about sawing off a few floors and trying to leave a buffer zone.

Mr. SCHLESINGER. Yes, sir.

Chairman CHILES. And then having the annex rather than tear the building down?

Mr. SCHLESINGER. That is right. We can save five floors. Some of those floors will be used for activities that we have not had enough space for in the past and will be quite useful. There is no reason to tear down that structure if it can serve a useful purpose. The other activities, as you say, will move into the—the sensitive activities will move into the annex.

WOULD PERSONNEL REDUCTION REDUCE EMBASSY SIZE?

Chairman CHILES. Well, I understand that the Laird Commission is considering a proposal to sharply reduce the size of our overall presence in Moscow. If that is the case, and if the manpower in Moscow is reduced, say, from 300 down to 150, would you then modify your proposal? Would we need all this extra floor space?

Mr. SCHLESINGER. Let me observe that, as your question implies, Mr. Laird and his Commission are dealing with the question of physical security, not confined to the new building. I have dealt with technical security at the new building.

If, indeed, it is decided to reduce substantially our presence, these recommendations would have to be reviewed at that time. But let me point out, Mr. Chairman, that we have all sorts of places around Moscow, including a warehouse, which are difficult to guard.

And that by having storage areas protected in the new office building, we will provide greater protection for our equipment, something that has fallen short of the ideal in the past.

UNPREDICTABILITY CONTROLS CONSTRUCTION COST

Chairman CHILES. Well, we started off with a building that was going to cost $75 million. We have now appropriated $192 million. What is the price tag? Can you give us any price ticket on what you are talking about?

Mr. SCHLESINGER. I do not want to give you any hard and firm number. The estimate is an additional $40 million in appropriations from this committee.

Now, let me make a comment, if I may, Mr. Chairman, on that. I referred in my earlier remarks to the move and counter move that goes on in the game of embassy security and embassy penetration.

We are dealing with something akin to weapons systems development or intelligence systems development in which we must anticipate counter moves by one's opponent.

And, therefore, just as with a weapons system, the costs, depending upon the action of a cunning opponent, are going to be unpredictable at the outset.

We should look upon these ventures more in the light of the cost of intelligence systems or weapons systems than we do as simple construction.

That has been a problem for the State Department in the past. It is a problem that has been, in part, internal to the psychology of

the Department, but it also has reflected the pressures from Capitol Hill to treat these projects as if they were purely construction projects.

They are projects that involve move and counter move over a period of 60 years in which this embassy will be providing useful services and we ought not to be inclined to shortchange this kind of capability.

MISMANAGEMENT DISPLINARY ACTIONS TAKEN

Chairman CHILES. Secretary Whitehead, in your opening statement, you acknowledged that the Cairo project was grossly mismanaged. Has anyone ever been fired as a result of that gross mismanagement?

Mr. WHITEHEAD. I do not know the answer to that question. Most of the problems arose before my arrival in the Department. I do not believe that anybody has been fired for gross mismanagement since I have been in the Department, which has been approximately 2 years.

Chairman CHILES. I yield.

CAN NEW BUILDING BE MADE SECURE?

Senator DOMENICI. I thank you, Mr. Chairman. Dr. Schlesinger, was one of your missions to determine, based upon what you found out about the evolution of Soviet intelligence technology, whether or not we could construct a new facility as secure as we can make it. It would be subject to new conditions and obviously subject to Soviet concurrence in a change in the bilateral agreement. Was one of your missions to find out whether or not we could, indeed, continue the normal American use of the Moscow Embassy?

Mr. SCHLESINGER. Yes, sir, that was one of my missions.

Senator DOMENICI. What is your answer to it? Can we?

Mr. SCHLESINGER. I would point out that we had the work of the Mitre Corp., as well as drawing on all of the intelligence arms of the U.S. Government, and the answer to that is judged to be, yes.

Senator DOMENICI. If the answer is, yes, do you believe that there exists within the current State Department management the capacity to carry out that mission under whatever restrictions are necessary to accomplish that event?

Mr. SCHLESINGER. Senator Domenici, I believe that the responsibilities for construction of embassies should remain with the Secretary of State.

I have not done a careful analysis of the internal capabilities of the State Department and, therefore, I suggest that that question more appropriately should be directed to Mr. Whitehead.

STATE DEPARTMENT MUST DRAW HELP FROM OTHER AGENCIES

Senator DOMENICI. Well, before I do that, let me just ask you—I gather from your testimony that you are really talking about, in terms of the evolution of Soviet technology in this area, a very serious ongoing commitment on their part with reference to technology and with reference to systems.

And I assume that you would agree that if it is left with the State Department, and I assume it will be, that somehow or an-

other they have to have the capacity or draw on the capacity to understand, evaluate and counter that Soviet effort to the maximum extent that it is possible to be done by the United States. Is that not correct?

Mr. SCHLESINGER. Yes, sir, and I have recommended that the Department, through the NSC system, establish an advisory committee to the Secretary of State, which would draw on the capabilities of other elements of the U.S. Government, most clearly the intelligence agencies, so that the views on matters could be, if necessary, brought directly to the attention of the Secretary of State.

SOVIET REACTION TO EMBASSY MODIFICATION PLAN

Senator DOMENICI. Now, let me just ask you, you have had long experience working on behalf of the United States with the Soviets. Can you tell us what you perceive the Soviets' objection to the modification of the existing agreement is going to be? What are they going to say?

Mr. SCHLESINGER. They are going to say a number of things. I think one of the things that they will say is that if a change in the existing terms of construction is permitted, that it must be permitted on an equal basis, that it must apply to both sides.

If the United States builds a 38,000 square foot annex, that they must have an equivalent right to build it. I suspect that they demand for equality is always high on the Soviet list.

I think that it will depend primarily upon their assessment of the international climate and whether or not it is in their interest to continue to pursue this secondary matter, when they have much greater things at stake than embassy penetration.

And I think that they will be interested in getting into their own embassy complex on Mt. Alto.

So, they will press us, I think, largely for reasons other than the matter which is under discussion. A concern of theirs, of course, will be the establishment of a new precedent, but I think that the precedent with respect to outside, non-indigenous personnel working on these embassy complexes is a precedent whose time has come.

Senator DOMENICI. So, you are suggesting that that is going to have to be the way we do business any way, so we might as well get on with it?

Mr. SCHLESINGER. That is right. If we are going to continue to have traditional kinds of diplomatic relations, it is contingent upon secure embassy complexes and that is contingent upon these modes of construction.

MUST CONSTRUCT NEW BUILDING WITH U.S. WORKERS

Senator DOMENICI. Now, I think it is obviously implied in your report, but let me just ask again, you are unequivocally saying that unless they permit us to build a substantial new building under completely new terms, with American personnel in charge, that clearly there is no way we can move into a Moscow Embassy and conduct the business of the United States as we try to do in embassies now in Moscow and around the world?

Mr. SCHLESINGER. That is correct, not with a high enough degree of confidence in the security of our operations.

May I add, Senator, that although my responsibility has been in the area of technical security, physical security is a prerequisite for technical security.

And unless one has physical security which precludes the attachment of certain types of intrusive devices, one cannot guarantee under any circumstances, technical security.

It is for that reason, because of the onward movement of technology that we must have the ability to control access to these facilities, if they are to be secure.

Senator DOMENICI. Chairman Chiles, I am just going to ask Secretary Whitehead just one question on this issue and then I would yield and on second round I would like to ask him about the overall earmarking and the like in the appropriations and budget process. Is that satisfactory to you?

Chairman CHILES. Yes.

CAN THE STATE DEPARTMENT HANDLE NEW CONSTRUCTION GUIDELINES

Senator DOMENICI. Secretary Whitehead, you have heard me ask former Secretary Schlesinger about the capacity within the State Department to do what he has suggested. What seems obvious, at least to this Senator, is that you must accumulate and assimilate the best intelligence knowledge with reference to these kinds of matters within the Department and then to focus it properly on embassy construction.

While Dr. Schlesinger has indicated his recommendation that the State Department continue to have that construction role, when I asked him whether you have that capacity, he deferred to you. He said you must have that capacity and I am asking do you have now it?

Mr. WHITEHEAD. Yes, sir, I think we do have it. The first step and one of most important steps, of course, is to negotiate with the Soviets the terms which we will require to proceed with this plan.

We must develop leverage with the Soviets, sufficient to encourage them to agree to let us do what we need to do.

I assure you we will be very tough in those negotiations, because it is not acceptable for us to occupy this building complex unless we can assure the American public and the people in that embassy that their work is secure when it needs to be.

Senator DOMENICI. But, Mr. Secretary, that really is not my question. Whatever studies are undertaken, we are going to have to build a new building and make it as secure as possible.

I think the concern that we have is that if you are charged with doing that, have you assembled a proper management team within the Department? We need to be assured that, after the agreement is negotiated, if it is, we will construct it with the maximum intelligence safeguards that modern technology permits us to have at our disposal.

Now, obviously, we did not have that. I am not laying blame on you. We x-rayed that concrete, did we not, those slabs and things? We used whatever modern technology we have already and we find

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out that everybody says that building is unsafe in terms of secure transactions. What has changed in the Department?

DEPARTMENT CAN HANDLE THE JOB

Mr. WHITEHEAD. What we will do in the construction of the new building is to assure a complete chain of safe construction of the components of the building, safe transportation into Moscow and safe construction.

This will start with prefabricated sections of the construction work that will be fabricated here in the United States under the safest and most secure conditions.

It will result in safe transportation, either by ship or by plane to the site, with the complete guarding of components as they proceed through that transportation process.

It will then proceed with erection of the building, entirely with U.S. personnel, with no Soviets or outside contractors permitted on to the site.

And I believe I can assure that we have the people who can do that. We have the organizational structure now that will do that and I believe I can assure you that we can do it successfully.

One important aspect is that we will assign a senior person to be the full-time project manager of this project, who will be responsible for all aspects of it and who will prevent the chance of the project falling between the cracks as it moves from one kind of operation to another.

This gives some assurance that we are responsible for the management of the Department amd can look to one person to be responsible for the entire project.

Senator DOMENICI. Thank you, Mr. Chairman.

Chairman CHILES. Senator Hollings?

Senator HOLLINGS. You understand, Secretary Whitehead, that all of those statements made, in the light of the security breached at the Moscow Embassy, where the regional security officer charged with security and the Ambassador, are under serious question right now.

HOW TO USE RECONSTRUCTED MOSCOW CHANCERY

There have been statements by a Marine guard, at least, and others, that there was no security. He had studied. He had gotten the proper training at Quantico. When he arrived, they were all in the "black market." That they allowed unauthorized personnel into the Embassy to such an extent that when the alarm sounded, it became a nuisance, and so on down the list. So, that is why you hear these questions from these Senators here now.

Now, to jog your memory, Cairo, that man was promoted.

And you have on course now another $50 million request on top of all of this to deal with the old building. What do you envision going into the first five floors if you accept the Schlesinger plan?

Mr. WHITEHEAD. Well, we have not determined the exact departments that will go into the five floors, but there are functions in every embassy which need not be completely secure and those——

Senator HOLLINGS. But generally restricted. Is that not correct, Mr. Secretary. Every American Embassy, all of its activities are

within the knowledge, interest and more or less, if you can say the word, privacy, of our own government, not publicized in the newspapers.

Now, you would not have five floors of unclassified activities going on, do you think?

Mr. WHITEHEAD. The lower five floors will, of course, be restricted in every possible way and secure in every possible way.

CANNOT GUARANTEE SECURITY OF EMBASSY

Senator HOLLINGS. Now, let me ask Secretary Schlesinger, can you guarantee us, if we accept your plan, that the five floors are secure?

Mr. SCHLESINGER. That those five floors are secure? The reason that we would not have classified activity in those five floors is precisely that we cannot guarantee that. We will make——

Senator HOLLINGS. You cannot guarantee it?

Mr. SCHLESINGER. We should make every effort to neutralize——

Senator HOLLINGS. But you do not know whether it is neutralized?

Mr. SCHLESINGER. Indeed, that is right. That is why we would not use that for classified activities. You inquired as to what would be going on in that area, as the chairman has indicated. There would be a buffer zone to——

Senator HOLLINGS. Can you be sure of an effective buffer zone?

Mr. SCHLESINGER. There would be a buffer zone which would add to the protection to prevent drilling activities.

Senator HOLLINGS. So, we cannot guarantee the security of the floors nor can we guarantee the security of the buffer zone.

Mr. SCHLESINGER. If we could guarantee the security, Senator Hollings, we would not be engaged in this great game of move and counter moves that I described earlier.

START OVER AND SEND SOVIETS THE BILL

Senator HOLLINGS. Well, would it not be a more appropriate counter move to start over at the beginning and send them the bill? They probably have $23 million. We have got $23 million. They probably got $23 million worth of devices in there, do you not think?

Mr. SCHLESINGER. I think that the research and development effort that went on prior to the construction activities probably far exceed $23 million.

I think that what you suggest would be very difficult to negotiate. I think that it would add to the difficulty of persuading the Soviets whose cooperation we will require to permit the dismantling with American personnel the reconstruction of the top and the addition of the annex.

It is not necessary to do so, because we would not be carrying on classified activities. In that area, we would be carrying on other things, such as storage, such as sleeping quarters for transients.

These would take some of our transients out of the Moscow hotel system, with all that that may imply, or more precisely all that one might infer from that comment.

And this is a cost effective solution by providing a higher degree of confidence in the security of our most sensitive operations than can be otherwise acquired.

ADJUSTING SECURITY ACCORDING TO NEED

I point out to you, Senator Hollings, that this is all based upon a strategy of defense in depth and that we are graduating the degree of security to what we are—the activities we are carrying on.

And that in that intended annex, we will have a degree of security for our most sensitive operations that we are not going to obtain from the existing structure or its replacement.

Senator HOLLINGS. Well, the question is why not get what you contracted for. Mr. Secretary, both you and I know, both being in intelligence in the midfifties, a lot of the work that you or I would ordinarily say was not the highly classified—namely a budget. We learn more about the Soviets from their budget. They learn more about us from our budget, which is an open document and I can give you a list of those other things.

That is why I asked the question of Secretary Whitehead, because I was going to get him to put it on the record. You finessed that answer. You said they had not quite studied that issue but you have got sleeping quarters and storage. Is that the best we can get out of you?

You also should know, Mr. Secretary, from old construction, it is more costly——

Mr. SCHLESINGER. On floors four and five. On floors one, two and three, we have other activities, including receiving areas.

At the present time, in our embassy complex, the tendency has been, I think regrettably, to bring outside personnel, including block personnel right upstairs into the classified areas, into the offices of our officials.

We are going to use that space for unclassified facilities on the lower floors so that those who are guests of the embassy, from the Ambassador on down, can be received in an area in which one does not have security concerns.

Senator HOLLINGS. Well, it is built, as you and I both know, like a large antenna and there is a very very serious question as to whether that antenna is untouched as they would see and as they would use it. That would not be in our best security interest.

There is no question, now that the House has voted no admission to Mt. Alto. And I can certainly see the Senate going along with that.

So, we start with what we are able to negotiate, not just with the Soviets, but with this Congress. And I cannot see the Congress voting admission into Mt. Alto until we have a secure facility and we get what we contracted for.

And on that basis, I think that you made a good effort, but I think you abdicated to that philosophy, that you talk about the acceptance throughout the government of a philosophy that, look, we have got many fish to fry with the Soviets, we have got a larger interest than those of the embassy game.

So, they might scratch up one for them on this particular score and let us move on to some others.

We in the Congress would not accept that. We would not accept that. As chairman of the Committee on Appropriations for State, I doubt if we will ever get that passed or that philosophy accepted.

I see my time is up. I will yield at this time for the second go around.

Senator DOMENICI. Mr. Leahy.

DISCIPLINARY ACTION TAKEN BY THE DEPARTMENT

Senator LEAHY. Thank you. And thank you, again, for your courtesy, Mr. Chairman. This is a matter that I have followed for a number of years. Secretary Whitehead, I have got to tell you, I am astounded at your answer to one of Senator Chiles' questions.

You are telling me that nobody connected with this Moscow embassy construction fiasco has been disciplined in any way for the security disaster, for the cost overruns, for the gross mismanagement at the American taxpayers' expense? Has nobody been disciplined? Has the Inspector General of the State Department undertaken any investigation of this fiasco? Can you tell me that?

Mr. WHITEHEAD. Senator Chiles' question was about the Cairo Embassy, I believe.

Senator LEAHY. All right, well, let me ask you about the Moscow building. Has anybody connected with this Moscow fiasco been fired, disciplined in any way after these enormous cost overruns, the security disaster? Has anything been done to anybody?

Mr. WHITEHEAD. I do not believe there have been cost overruns in the Moscow embassy. There have been increased——

Senator LEAHY. Oh, Mr. Secretary, come, come, come. Then somebody has got some money that is floating around here that we do not know about, because—you talk about what it is going to cost to complete that—even if we took the proposal made today, that is double or triple the cost originally intended for it. Do not tell me there is not a cost overrun.

PROJECT DIRECTOR PROMOTED

Chairman CHILES. Well, I think the individual who is the deputy project direction and later to the project director of the new construction project in Moscow has been promoted and is now in charge of embassy construction for all of Europe.

Senator LEAHY. Mr. Secretary, you say "no cost overrun." This thing was going to cost $75 million. It is now up to $196 million. Now, maybe with your business background, you do not call that a cost overrun, but as a member of the Appropriations Committee, and somebody who has to be responsible to the taxpayers, I would call it one hell of a cost overrun.

Mr. WHITEHEAD. Well, Senator, if I could speak to the facts that I am aware of. The project started in 1972 and has been an ongoing project which has been changed a number of times as needs have been changed. There are——

Senator LEAHY. Well, Mr. Secretary, to get back to the particular question—and I do not want to be in the position that Senator Hollings found himself in when he said you kind of slipped off the subject—let me ask you this, has anyone connected with the Moscow

embassy construction project been disciplined in any way for either the security disaster, the cost overruns, or the mismanagement?

Mr. WHITEHEAD. Not to my knowledge, sir, but——

Senator LEAHY. Has the Inspector General of the State Department undertaken any investigation of this fiasco?

Mr. WHITEHEAD. Yes, there is an ongoing investigation now by the Inspector General.

Senator LEAHY. And has that office recommended any corrective changes in the State Department?

Mr. WHITEHEAD. They have not yet issued their report on the Moscow situation.

DEPARTMENT WARNED ABOUT PROJECT OFTEN

Senator LEAHY. The reason I ask this, Mr. Secretary—and I am only one Senator that has been asking—Senator Chiles has, Senator Hollings and others have been as well—I have been wondering for some years about responsibility for the Moscow scandal.

You can go back through the transcripts of the Senate Intelligence Committee and find that a number of times I have warned about it. I have had meetings with members of the State Department, privately in my office, and have warned about it. I know other Senators have.

I mean, does anybody care? Does anybody even listen when we Senators say these things or must it be somebody sitting on the top floor of the State Department before anybody is going to pay attention?

Mr. WHITEHEAD. We care now, sir.

Senator LEAHY. Well, I wish you cared before.

Mr. WHITEHEAD. Well, I wish so, too. There is plenty of blame to go around to all of us, going back a good many years. The project has not been well-managed.

My efforts and the Department's efforts are directed now more toward looking ahead and trying to find the best future solution rather than to look back and try to find the victims to pay for past mistakes.

Senator LEAHY. No; let us look back a little bit, because we might learn from some of the mistakes there. And I said earlier, and I meant it very seriously, if the State Department does not know how to handle such construction, just go and review how the Soviets construct theirs.

Because they obviously paid a lot more attention to security than the United States did. And if we do not know how to do it ourselves, let us copy what they do. We know how well they do it.

KEEP FOREIGN BUILDINGS PROGRAM IN STATE

Is there any reason why the overall management of the Foreign Buildings Office program should not be under the control of some other department or agency than the State Department in light of this?

Mr. WHITEHEAD. Yes, sir, I believe the control should stay where it is in the State Department. Let me, if I may, answer that a little more fully.

Senator LEAHY. Go ahead.

Mr. WHITEHEAD. Building buildings is, in and of itself, a very complicated and difficult problem. When you have to build them in a foreign country, it becomes even more complicated and when you have to build them in a foreign country where security is of utmost importance, it becomes a still more difficult problem.

It is not just a question of constructing the building. The process starts with negotiations with the country involved wherever the country may be, as to the location of the site and the nature of the building and the functions that will be performed there.

There are in our embassies some 50 departments and agencies—in some embassies—whose needs all must to be coordinated before building construction can begin.

It is a very complex problem and I believe the State Department is in the best position to manage that process. To transfer the responsibility for these projects to the Army Corps of Engineers, which I——

Senator LEAHY. I am not suggesting that. I am saying that on the part, especially where security, top security is necessary, do you really think the State Department is up to that job?

Mr. WHITEHEAD. Yes, sir, I certainly do.

Senator LEAHY. Well, you know, Mr. Secretary, I remember somebody from the State Department gave me a review of the enormous security arragement at our embassy in New Zealand.

We have gates there that pop up, I guess, with the idea that maybe in the middle of the night a frenzied mob of New Zealanders may march on our embassy.

I am far more concerned about one or two people from the KGB coming quietly in our embassy in countries like the Soviet Union or other bloc nations.

I am not concerned about how you handle the public reception areas. I do not expect them to be secure. Nobody does. If we have an area where we are going to invite people in for trade missions or cultural exchanges or the Soviet press, of course those areas are not going to be secure. That does not bother me a bit.

But at some point, as Dr. Schlesinger testified earlier, you must have other areas where security is necessary. Those are the areas that I am concerned about. Do you really think the State Department is up to making those areas secure?

Mr. WHITEHEAD. Yes, I do, sir. We will work closely, of course, with the technical security agencies in order to develop and to use the highest level of techniques that the country has available to protect ourselves from the kind of intrusion that the Soviets seem to be very advanced in.

EMBASSY COMPLETION FIGURE UNCERTAIN

Senator LEAHY. Senator Chiles and I have introduced legislation in the past to try to get recompense from the Soviets where the—damages to contractors—were due because of delays attributable directly to the Soviet Government. And I suspect we are going to be exploring some of those things again.

But let me ask you this, can you give me a ball park figure of how much it will cost to carry out the recommendations made by Dr. Schlesinger here today?

Mr. WHITEHEAD. It is still very difficult to give a ball park figure, and there are still some funds that have been appropriated but that have not yet been spent for the completion of the building and that are already available to us.

Some $43 million is available for the completion of the new office building.

Senator LEAHY. But these recommendations would cost considerably more than $43 million.

Mr. WHITEHEAD. Yes, sir.

Senator LEAHY. Double that? Triple that?

Mr. WHITEHEAD. No, sir, I would say an equivalent amount.

Senator LEAHY. Double it then?

Mr. WHITEHEAD. Yes; but the new money, the additional money, beyond that now appropriated and unspent would be an amount somewhere in the range of the $43 million that we still have available.

But that is, I would say, a very preliminary guess because the refinements of the new building that Dr. Schlesinger proposes have yet to be investigated in detail and the functions that will be there have yet to be determined in detail.

But as a general round figure, that would be the best that I could come up with from what I know today.

Senator LEAHY. Thank you very much. Thank you, Mr. Chairman.

STATE DEPARTMENT PERFORMANCE AWARDS

Chairman CHILES. Secretary Whitehead, we sound like we are doing a lot of dumping on the State Department here. I want to reiterate, we think the State Department does some things very well, and that there is a world of dedicated personnel that is working hard for the best interest of this country.

Our concern, I think, and you are hearing it expressed across the panel, is whether the State Department, given its mission, given the way promotions are made, given the way you get ahead in the State Department, is qualified to manage major construction projects.

We have had studies anywhere from $5 billion to, some people are now saying, considerably more than that. Should we look and see whether there should be some coordinated effort with the State Department taking into consideration what all of its needs are, or whether we should determine if there are other agencies of the Federal Government that might be able to manage this in a better way.

Now, having laid that predicate, numerous individuals in the State Department management system are available for and eligible for performance bonuses. And many State Department employees associated with embassy construction and administration seem to have received awards in the past few years, even in the light of revelations about mismanagement in this area.

Arthur Hartman, our Ambassador to Moscow during the construction of the new chancery received a $20,000 award.

In 1986, the security engineering officer of the year award was given to an officer who served as security engineering officer in Moscow between 1980 and 1982.

Much of the bugging of the new embassy was taking place and his award states among other things, "His astuteness in keeping administration decisionmakers and Members of Congress informed on Moscow security."

The Under Secretary for Management and the Assistant Secretary for Administration, Supervisor of the Foreign Buildings Office and the head of diplomatic security have all won performance awards in the past years.

Reginald Bartholomew, our Ambassador in Lebanon, received an award in 1986, even though Admiral Inman publicly criticized the embassy security management problems and for claiming the security gates had been installed at the embassy in Beirut shortly before the embassy was destroyed by a car bomb.

Now, my question is, do the embassy construction or security issues have any influence in this bonus award decision and what does this say about the importance that the State Department places on these issues.

You just told me how you have reorganized now and you have all of these different levels of management decisions. What does this say?

AWARDS GIVEN ON OVERALL RECORD

Mr. WHITEHEAD. Performance awards, of course, are awarded based on overall appraisals of the performance of the people involved rather than their performance in one specific area.

Ambassador Hartman's performance, for example, as Ambassador to the Soviet Union, may be one of the most important jobs anywhere in the world. Of course, it had to do with a great deal more than just his performance in maintaining the security of the embassy.

And that would be true of many of the others whose names and titles you have mentioned.

Chairman CHILES. Well, the security engineering officer of the year award, I do not know if his would be pretty pertinent to what was going on here.

CANNOT BLAME EMPLOYEES FOR SOVIET EXPERTISE

Mr. WHITEHEAD. The Soviets are very good at this thing and to blame officers who are Ambassadors in the country for the superiority of the Soviets in this area is maybe not entirely fair.

We have to admit to our distress that the Soviets are very likely ahead of us in this area. They have adopted techniques that we had no knowledge of.

This is not necessarily the fault of those who were charged with the operation of the embassy and the functions there.

These techniques are very advanced and as Dr. Schlesinger has said, we still do not really understand what it is the Soviets were planning to do and how they were planning to do it.

So, to allot fault for that, it seems to me, is maybe not the appropriate way to face up to the problem.

Chairman CHILES. But should we promote the project managers?

Mr. WHITEHEAD. Well, project managers who fail to perform their project satisfactorily certainly should not be promoted, no, sir.

Chairman CHILES. Let me just ask you this, reverse the situation we have talked about, what do you think the Soviets would have done with a project manager, the security officer, the ambassador, anybody else who had something to do with that situation had the projects been reversed?

Mr. WHITEHEAD. They would have disappeared from the face of the earth.

Chairman CHILES. I think in some ways you are answering my concern about whether we can totally have the State Department involved in this.

SINGLE INDIVIDUAL IN CHARGE OF SECURITY

Mr. Schlesinger, you said that we have to put one man in charge of this. Do you think that this individual should be a Foreign Service officer? What should that individual's qualifications be?

Mr. SCHLESINGER. The individual, if he is a Foreign Service officer, is one who should be highly imbued with the importance of security measures in an embassy.

And he should, of course, have the appropriate appreciation of the technical questions. He need not be a structural engineer. He need not be the equivalent of an offensive intelligence officer or defensive intelligence officer, but he needs to have an appreciation of the importance of all of these matters within the embassy complex.

The stress on the single individual is to avoid the piecemeal nature of decisions as they have occurred in the past and have been, I think, detrimental to the security questions.

It has always been possible to trade off, as it were, those things that have longer term security implications for shorter term benefits.

EMBASSY SECURITY INTRUSION DISCOVERED EARLY

Mr. WHITEHEAD. Senator, could I add something on this matter that I think is worth mentioning.

Chairman CHILES. Yes.

Mr. WHITEHEAD. While we certainly are not proud of all of our State Department activities in our building program, I think it is worth noting, which the public often has not noted, that we discovered this security problem before the building was occupied.

It is fortunate, indeed, that we at least discovered it and did not move into the building with these devices in place.

And one of the security officers, whom you mention in connection with a performance award, was the person responsible for finding these unusual, and to our security community, completely new devices, which infiltrate the building.

We wish we would have found it sooner, because we would have saved money and time if we had, but at least we did find it.

Chairman CHILES. My understanding was, and I am glad that we did not move in, but my understanding was the intelligence com-

munity was starting to raise the red flags and alarms for a long time before anyone would listen.

And it was intelligence teams that started the warnings going.

Mr. WHITEHEAD. Well, the first indication of the specific penetration came about several years ago. During the intervening time, the intelligence community and the State Department worked very closely together in trying to identify the nature and the extent of the intrusion.

BUILDING PROJECTS NOT ON SCHEDULE

Chairman CHILES. Mr. Whitehead, in your statement you say that you have 63 projects under way and substantially on time and within budget.

Last month, Senator Domenici and I sent the staff of this committee to five of those projects in the Middle East and Africa and they reported only one substantially on time and within budget.

Projects in Muscat, Oman and Djibouti and Egypt—in Cairo—and Djibouti and Mogadishu in Somalia were all behind schedule. So, four out of five that we looked at were not on time and not on schedule.

Mr. WHITEHEAD. I think you must have gone to the worst ones, Senator. My statement was that in the aggregate they are within budget and on time.

Individual projects are lagging. Some are ahead of schedule, some behind schedule. Unfortunately, that is the nature of construction projects.

There are many things that can happen to delay a project because of the complex nature of the construction and of the buildings and the difficulties of building buildings in these often rather primitive economies.

Chairman CHILES. They just happened to go out and look at five buildings that were in the same geographical area. Maybe we have to send them out again if the other 50 something are going to be on time. I yield.

MODIFICATIONS IN EMBASSY CONSTRUCTION AGREEMENT

Senator DOMENICI. Thank you, Mr. Chairman. Secretary Schlesinger, I am not here to defend anyone or necessarily to blame anyone. We have a mess on our hands. That is pretty obvious.

Did I understand your testimony correctly that if we knew what we know now, collectively, we would have concluded that we could not construct an embassy under the agreements entered into with the Soviet Union.

We could not have constructed an embassy that was secure.

Mr. SCHLESINGER. That is precisely correct, Senator.

Senator DOMENICI. So that if we are going to construct this embassy in a manner that is secure, clearly we cannot expect people managing the site to take care of the problems. Essentially we have to change the essence of the arrangement with the Soviet Union with reference to construction. Is that correct?

Mr. SCHLESINGER. I think that there will have to be modification. I am not sure just what is meant by the word "essence" but there will have to be modification of the existing arrangements, yes, sir.

Senator DOMENICI. Well, perhaps I did not use the right word, but for me, one of the essential matters is that onsite inspection of construction that occurs in the Soviet Union is not adequate. That would have to be changed.

Mr. SCHLESINGER. The offsite pre-casting?

Senator DOMENICI. Yes.

Mr. SCHLESINGER. That would have to be changed, certainly, yes, sir.

Senator DOMENICI. And we would have to have the freedom and liberty to import all of the people on the site that were needed to do the construction. They could not be Soviet Union workers?

Mr. SCHLESINGER. If we are to have confidence in the security, yes, sir.

Senator DOMENICI. Those were not permitted under the accord that we reached. Is that correct?

Mr. SCHLESINGER. They were not specified in the accord, therefore, they were outside of the accord. Once again, we agreed that the structure would be created by the host country both there and here.

INSPECTOR GENERAL OVERSEES SECURITY

Senator DOMENICI. Now, let me ask Secretary Whitehead, the State Department Inspector General that we have in place, are you familiar with that designated person's powers and prerogatives as currently mandated by law?

Mr. WHITEHEAD. Yes, sir.

Senator DOMENICI. Are they sufficient to do what is suggested here. Can we in an ongoing manner, ascertain whether or not things are being done correctly and essentially whether or not we are maintaining the maximum security potential as we progress. Is that part of the prerogative of that office?

Mr. WHITEHEAD. Yes, sir. As you undoubtedly know, the status of the Inspector General in the State Department has been changed to make him more independent of the Foreign Service than he was historically.

And the new Inspector General is in place. He is not a veteran State Department person. He had previously been Inspector General at the Department of Commerce.

He now reports directly to the Secretary and to me. He is now conducting completely independent inspections of our various offices. And it is, in my view, an important improvement in the management of the Department.

IMPACT OF EARMARKING OF AND RESTRICTIONS ON FUNDS

Senator DOMENICI. Mr. Secretary, I am particularly interested in what would happen to aid to Guatemala and the Philippines as examples of earmarking restrictions. I was also interested in the impact of earmarks and restrictions in the Senate authorization bills for the State Department aid, if they were enacted as reported.

I am not sure that considering the nature of this hearing that you have answers to those two questions. Do you?

Mr. WHITEHEAD. Yes, and I welcome the opportunity to be asked those questions.

Senator DOMENICI. Well, then consider them asked.

Mr. WHITEHEAD. In the interest of time, I will give a short answer, which is that we urge the Congress to not earmark the appropriations, because they make it very difficult to manage the reduced resources.

When the total appropriation for foreign aid, for example, is reduced by, say, 25 percent as it has been over the last 2 years and large amounts of that (approaching 50 percent of the total) have been earmarked for specific countries, and, therefore, may not be reduced at all, the burden of the reduction then falls on all of the other programs, not the burden of a 25 percent reduction, but the burden of a reduction that is more like 50 percent.

And, so, the burden is shared, in our view, unfairly between those countries that are earmarked and those countries that are not.

And, so, we would generally urge that earmarks not be placed on our appropriations, so that we have the flexibility to manage our foreign affairs effectively without being told just exactly how the money should be spent.

NEW AGREEMENT MUST BE AN INTERAGENCY ONE

Senator DOMENICI. I have one last question of Dr. Schlesinger. Dr. Schlesinger, it appears to me, without being an expert in any of this, that your remarks about the Soviet Union are a warning to us about how serious this kind of Soviet intelligence apparatus technology is and how good they are at it.

Regardless of where we place the responsibility to manage construction, it is obvious to this Senator that that particular entity must draw on the very best intelligence and counter intelligence capabilities that the United States has, wherever it is.

That is what bothers me about what bureaucratic niche it belongs in. It seems to me that unless all of that counterintelligence capacity is integrated under whomever we place in charge, be it in the State Department or elsewhere, that clearly even with the integration of all of it we are apt to be inadequate to cope with what the Soviets are doing.

My concern is that it be integrated in that manner at every stage. The next bilateral agreement that is signed, if it is signed, should not be exclusively a State Department function unless they have had at their disposal absolutely the very best analysis from a number of American agencies.

It seems to me the organization has to have the CIA involved. It has to have the very best of our defense intelligence people involved, the think tanks of the various defense departments.

Now, am I seeing this picture right or am I on the wrong track here?

INTER-AGENCY HELP BEFORE DID NOT HELP

Mr. SCHLESINGER. Well, that is quite correct. One has to have an integrated approach. I have so recommended to Secretary Shultz that those kinds of capabilities that do not exist within the State

Department be drawn upon by the State Department as it proceeds with embassy construction.

One should acknowledge, however, that the Department has received advice in the past, which has not always been penetrating with regard to these matters, even from the experts.

That does not vitiate your point, Senator that they should draw upon the experts, but in the past, the intelligence agencies were not much more clairvoyant than the others.

Senator DOMENICI. So, they may be inadequate also. Is that what you are saying, what turned out to be as you look back on their past performance?

Mr. SCHLESINGER. It may turn out that their advice is not correct, based upon the best information available to them at that time. No one has a crystal ball.

Senator DOMENICI. If you look back through the history, as we have talked about it, of the Moscow situation——

Chairman CHILES. Excuse me.

Senator DOMENICI. Sure.

CONSULTING AGENCIES NOT CONSULTED BEFORE ACTIONS TAKEN

Chairman CHILES. I do not think that you will find that we asked at any time of the CIA or the NSA or these other groups if it is okay if we allow the Russians to occupy the apartments at Mt. Alto, should we do that for this quid pro quo for allowing us to have the same price we were supposed to bargain for to start with. They never got a sign-off on any of those things that took place.

I am sure they did not get a sign-off on the location of the sites to start with, as to whether we should give the Russians the high ground and us take the low.

I do not think they got a sign-off, should we allow prefabrication to take place off site. [Laughter.]

Mr. SCHLESINGER. No, indeed, they did not get a sign-off nor did—that particular issue was resisted by the State Department as well, I should point out. That was a decision based upon higher authority as we refer to it.

Moreover with regard to the selection of sites, the intelligence community was indeed consulted and there was a sign-off on certain provisions, i.e., there was a sign-off at that time.

One should, I think, distinguish between those things that one could and could not anticipate in view of the fact that one is dealing with an opponent who is progressing—and that one cannot anticipate the areas of progress of that opponent. An embassy is a very complex phenomenon, especially an embassy in a hostile region.

It has many functions. There are many vulnerabilities, many areas of risk. One of the advantages of hindsight is that we can come back and specify the area of risk.

But the responsibility for maintaining the security of an embassy is to allocate one's resources and efforts in such a way as to optimize over the whole spectrum of risk.

I say that because there are those these days who are under the impression that somehow or another a non-admission of Soviet citi-

zens as workers in the embassy complex would have precluded the kinds of attacks that were made. It would not necessarily have.

There are all sorts of avenues of attack and one must be aware of all of these. It is much easier to specify the line of attack that was chosen by one's opponent in retrospect.

AMERICAN PEOPLE DO NOT WANT TO PAY FOR DEBUGGING

Chairman CHILES. Now, clearly, the American people do not want to be stuck with paying for all the costs related to debugging the chancery.

In April 1987, the State Department submitted a claim against the Soviet contractor for defective work at the new chancery in Moscow, including security related problems. The Soviet contractor rejected that claim saying it is unsubstantiated.

Can the Department not document its claim 2 years after the Soviets were locked out and is the Department now publicly prepared to document its claim? After all, the Secretary of State has publicly stated that the building is honeycombed with bugs. Was there any consideration of the financial implications when the Soviets were locked out in 1985?

Mr. WHITEHEAD. The Department has made claims against the Soviets for failure to live up to their contracts in a variety of ways, including the claim that you specifically speak of, we will continue to pursue those claims aggressively and they will be part of the ongoing discussions with the Soviets on the reconstruction of the new office building.

The claims have to do with faulty workmanship and with delays which have been costly to us. They also have to do with the security aspects that your specific questions pertain to.

All of those claims will continue to be pursued with the Soviets actively.

MAKE SURE CONTRACTORS' SECURITY CLEARED

Chairman CHILES. Last year, Bob Lamb, the Assistant Secretary of State for Diplomatic Security told the Congress that the State Department does security clearances on companies that bid our projects and that we would not give the bid to a company that did not pass the security clearance.

Last June, at the request of our late colleague, Senator Zorinsky, the GAO advised that 16 companies under contract to the State Department to design sensitive communications centers at some 49 posts did not have the required clearances.

Last year, the Senate was assured that these companies were properly cleared. Later, we found out that they were not. This is the kind of problem that I referred to in my opening statement.

Now, my question is, what steps are being taken to make absolutely sure that contractors have the right clearances and are you, Secretary Whitehead, and is Secretary Shultz, absolutely certain that all contractors have appropriate security clearances?

Mr. WHITEHEAD. I am not familiar in detail with the security clearance of outside contractors. I can assure you that those who operate in Soviet and Eastern European capitals are now being cleared with a vigilance that I am sure is effective.

I am not familiar with the clearance process for other construction programs. Mr. Lamb is here and if you would like me to, I would be glad to ask him to answer your questions a little more completely.

Chairman CHILES. When our Senate investigators returned from Moscow last September, one of the concerns they raised was they were concerned with the State Department's practice of sending contractors overseas without clearances.

Four contractors sent to Moscow without clearances had to be sent home. Last year, the Senate was assured that this practice would be stopped. No contractors requiring clearance would be sent overseas without clearance.

In December Secretary Shultz sent a cable to all posts requiring that contractors have appropriate clearances. Nevertheless, contractor personnel had been sent to North Yemen in May of this year without clearances, a violation of the State Department's own rules. Two of those contractors have now been sent back to the United States.

Are contractors still being sent overseas without clearances? And has any action been taken against State Department personnel who have violated your own regulations by sending these contracts overseas?

Mr. WHITEHEAD. May I ask Mr. Lamb to answer that?

Chairman CHILES. Yes, sir.

Mr. LAMB. Mr. Chiles, we established a construction security program last year, in response to Senator Zorinsky's very strong interest in the area and the fact that we seriously needed a better construction security.

There are a number of different issues raised here, a number of different kinds of contracts. Let me speak specifically to your point on the North Yemen contract.

We sent five contract guards to North Yemen about 4 weeks ago. I found out the week these people left that they had only Defense Department clearances. They had DISCO clearances. They did not have State Department full-field background investigations.

Let me just respond to the point that Mr. Olin is maybe whispering to you right now, as part of this answer. There was some confusion at the post about the nature of the clearances.

One of the people at the post said he did not have a clearance. Maybe two of them did. I have been reassured by the contractor, the man who is in charge of construction security for me, that they had DISCO clearances when they left.

Now, was something done to the employee who allowed this to happen? The answer is, yes. He works for me. He violated my specific instructions. He was warned. That young man will never again send another contractor to the post without having State Department full-field background clearances.

We have also made some organizational changes in the construction security program to make certain this does not happen again.

Chairman CHILES. We thank you for your patience and for your appearance today.

SHORING UP EMBASSY SECURITY VITAL

Senator DOMENICI. May I just again, Mr. Chairman, say that I compliment you for the hearings and might I ask that the two gentlemen, do I understand correctly that the two other studies that are being conducted will address broader issues with the reference to the conduct of activities within embassies overseas?

Mr. WHITEHEAD. Yes, we expect that both those studies will address the broader issues.

Senator DOMENICI. Mr. Secretary, let me just tell you again my general observation from looking at this, it seems to me that we may be in a position where the conducting of embassy business, as usual, as in the past, may, indeed, be counter productive.

It may be that if we do not change the way we do business in terms of security in these embassies that we may be providing the Soviets with an exceptional opportunity to gain information they would not otherwise gain.

And it seems to this Senator a horrendous mistake not to put the best American talent at finding out whether or not we should continue to conduct affairs in American embassies subject to the Soviet Union's security interventions, unless we know a lot more about how secure they can be made.

I do not know if we can clear up those, but that is what we have to find out, it seems to me.

If we do not do better, we may be providing a rare opportunity to the Soviets to gain information that is more difficult to obtain unless we make these embassies more secure.

Mr. WHITEHEAD. I agree with the thrust of your comments, but I would add that we need to recognize that the functions that our embassy can perform for the United States, particularly in countries such as the Soviet Union and the Eastern European countries, are very important.

They do provide us with a window on a closed society that gives us a whole lot of information.

Senator DOMENICI. Oh, I understand that.

Mr. WHITEHEAD. And to, therefore, think in any way of shrinking them back, I believe, is not the way to go. But as to your comments about the high priority that we should be placing on the security of those embassies and on information that can be obtained from eavesdropping on them, I certainly concur 100 percent.

Senator DOMENICI. Thank you.

Chairman CHILES. Thank you. The committee is adjourned.

[Whereupon, at 11:51 a.m., the committee was adjourned.]

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